**BACKGROUND ON FINANCING PROGRAMS**
**FOR AFFORDABLE HOUSING**

Developing housing that is affordable to very low- and low-income families[1] requires some amount of subsidy. The high cost of land and construction in California generally make it economically impossible to build new housing that can be sold or rented at prices affordable to such households. The private sector sometimes provides financial subsidies or land donations mandatorily through inclusionary zoning policies or voluntarily through density bonus ordinances. In most cases, however, some amount of public financial subsidy is needed from federal, state, and/or local governments.

There are four state agencies involved in financing the development of affordable housing. In addition, local governments often provide "gap" financing to cover any remaining subsidy needed after state resources have been utilized fully. Below is a brief description of the programs that support the development of affordable housing.

## Department of Housing and Community Development

The Department of Housing and Community Development (HCD) administers a variety of programs to meet a large range of housing needs, including emergency shelters and transitional housing, affordable rental housing, and affordable homeownership. As a general rule, HCD administers programs that receive money from the state's General Fund, either directly through the budget or indirectly from general obligation bonds. In addition, HCD allocates certain federal funds, such as the HOME Program and the Community Development Block Grant Program, for smaller jurisdictions that do not receive these funds directly from the federal government. HCD's major programs include:

- the Multifamily Housing Program, which finances affordable rental housing;
- the Farmworker Housing Grant Program, which funds housing for farmworker families;
- the CalHome Program, which funds activities to help low-income families become or remain homeowners; and
- the Emergency Housing Assistance Program, which finances the development and operation of homeless shelters and transitional housing.

[For a more complete listing of HCD's current programs, see the background sheet on Proposition 1C programs or see http://www.hcd.ca.gov/fa/.]

[1] Low-income households are those who earn less than 80% of the county median income. Very low-income households are those who earn less than 50% of the county median income. Housing is considered affordable when households spend no more than 30% of their income on housing.

**California Housing Finance Agency**

The California Housing Finance Agency (CalHFA) is the state's affordable housing bank. CalHFA borrows money from the private financial market at below-market interest rates by issuing tax-exempt revenue bonds. The agency passes these interest rate savings on to low- and moderate-income first-time homebuyers and affordable rental housing developers by offering below-market rate mortgages. These bonds are backed only by CalHFA revenues and not by the state General Fund. CalHFA also provides downpayment assistance in the form of deferred, "silent second" mortgages for families who need extra assistance achieving homeownership. [See http://www.calhfa.ca.gov/]

**Tax Credit Allocation Committee**

Both state and federal laws allow for a defined amount of tax credits to be awarded each year to the developers of affordable housing. The Tax Credit Allocation Committee (TCAC) allocates these tax credits to individual developments through a competitive process. Because the developers who receive credits generally have little or no tax liability of their own, they invite corporations to buy in to their projects in order to take advantage of the tax credits. These equity investments can cover up to 60% of a project's total development cost. [See http://www.treasurer.ca.gov/ctcac/ctcac.htm]

**Debt Limit Allocation Committee**

Federal law also allows for state and local governments to issue a defined amount of tax-exempt "private activity" bonds each year in order to facilitate private development, including affordable housing. The California Debt Limit Allocation Committee (CDLAC) allocates this private activity bond authority. The primary beneficiary is affordable rental housing. Tax-exempt bonds lower the interest rate paid by developers on their mortgages. Projects that receive tax-exempt bond funds also automatically receive federal low-income housing tax credits that are separate from those allocated by TCAC. [See http://www.treasurer.ca.gov/cdlac/cdlac.htm]

**Local Resources**

In addition to these state programs, local governments may have additional resources to support affordable housing. Cities and counties with more than 50,000 residents ("entitlement jurisdictions") receive HOME and Community Development Block Grant funding directly the federal government, both of which may be used to support affordable housing. Much less frequent are local housing trust funds that receive dedicated fee revenues, such as commercial development linkage fees, a portion of transient occupancy taxes, or other sources. In addition, more than 100 cities and counties have adopted inclusionary housing ordinances, requiring developers of market-rate housing to build, dedicate land for, or pay in-lieu fees to support the development of affordable housing. Lastly, cities and counties that used to have redevelopment agencies may also have limited income from the payback of old loans (known as "program income") that remains available for affordable housing purposes.